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ABSTRACT

This guide is a product of a study conducted as part of a broader effort by the Department of Education to identify the causes of rising college costs and find and disseminate ways to contain these costs. In institutions of higher education most costs are manageable and can be contained without jeopardizing key services. This can be achieved by designing and conducting a comprehensive cost-management study incorporating all aspects of an institution's support services. Such a study is based on the premise that there are four factors that determine success in achieving those goals: the university's strategy, the work it performs to pursue that strategy, the way in which the work is organized, and the actual results. An effective cost-management study should be holistic, long term, strategic, focused on people and work, and alert to cost/benefit tradeoffs. It should include seven basic components: (1) project definition and planning; (2) fact-finding; (3) analysis; (4) recommendation development; (5) implementation planning; (6) implementation; and (7) communication. The result of the study should be a series of recommendations to improve services and reduce costs, and may be categorized as follows: structure, service definition and delivery, alternative funding, work procedures, operational redundancy, management organization and productivity. (LPT)

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ToughChoices

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U.S. Department of Education
Washington, DC

Tough Choices

a guide to administrative cost management in colleges and universities

U.S. Department of Education
Washington, DC
Office of Planning, Budget and Evaluation

UNITED STATES
DEPARTMENT OF EDUCATION

Dear Colleague:

As many of you know, I was once a university president. During that time I learned firsthand how difficult it can be to control costs in the face of steadily rising prices. Nothing requires more leadership, ingenuity, and determination—or more cooperation from people throughout the college or university community

Having faced this problem myself, I am particularly proud to introduce *Tough Choices: A Guide to Administrative Cost Reduction in Colleges and Universities.* This handbook offers practical, step-by-step advice on how to perform an administrative cost study, detailing how the process can help you use your school's resources more effectively.

Tough Choices is the product of a study conducted as a part of a broader effort by the Department of Education to identify the causes of rising college costs and find and disseminate ways to contain those costs. I hope you find the booklet helpful, and are able to use the information it contains to create a more dynamic and productive institution. I also hope that you will share this handbook with your Board of Regents or Trustees.

Best Regards,

Lauro F. Cavazos

Lauro F. Cavazos

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Introduction

Higher education is passing through a period of great change. The student population is getting older, more ethnically diverse, and is taking longer to graduate. The demands of the public, corporations, and government are shifting the roles that colleges and universities must fill. Such changes have accompanied rapidly increasing expenditures, lagging revenues in some areas, and higher prices to students. The confluence of these forces has challenged college administrators to meet the needs of their constituencies and at the same time remain financially sound.

In this environment, colleges and universities are forced to reexamine their missions in order to find the best and most efficient route to achieve them. In order to manage effectively, administrators must study each aspect of their operation with an eye to increasing efficiency and improving quality. They must also reassess the institution's role in higher education: precisely what "business" is the college in? To what extent do its resources match its aspirations? What steps must it take to reallocate resources to better support its mission?

This book has been prepared to help college administrators answer these questions by outlining the process of a systematic cost-management study. This book does not, however, consider cost reduction for instruction and research-related activities—the focus is on administrative functions. The reasons are twofold: first, in recent years administrative and support costs have risen more rapidly than teaching costs. Second, experience has shown that cost containment can be achieved faster on the administrative and support side. Nevertheless, the magnitude of potential savings can be significant, often

in the range of 10 to 20 percent of the administrative budget.

The process described in this book is based on analytical techniques developed in the private sector and tested in higher education. It is an approach founded on the premise that in institutions of higher education, as in other organizations, most costs are manageable and can be contained without jeopardizing key services.

The Need for Change

Until recently, colleges and universities have been more concerned with revenue enhancement than with cost containment. As a result, their efforts to contain costs have been frequently short term and narrowly focused. Typically, administrators took such steps as:

- imposing across-the-board cuts
- ordering a hiring freeze
- allowing managers to reduce their budgets by target amounts
- curtailing or discontinuing services
- initiating long-term productivity studies or programs
- delaying or trimming capital expenditures.

Simple solutions such as these ease cost pressures for a time. But rarely do they get to the underlying causes of escalating expenses. And they carry a price. Across-the-board cuts, for example, frequently result in unplanned loss of faculty and programs. Curtailing services is often a form of cost-shifting that puts a greater burden on students and faculty. And delaying capital expenditures sometimes increases operating costs even as it defers needed improvements. Short-term cost-saving practices are of limited value, primarily because they lack a comprehensive organizational focus, and because they are not undertaken within the framework of a university's mission. Furthermore, they only partially fulfill basic cost-management objectives, which include the improvement of services, the freeing of resources, as well as cost reduction.

A Better Strategy

The difficulty with cost management is that there is no way to significantly reduce costs in any labor intensive organization without eliminating positions. However, this does not have to be a traumatic process. There are ways to reduce staff, minimize the human pain that staff reductions can involve, and improve services at the same time. These ways can be identified through a cost-management study.

A properly designed and conducted cost-management study will point the way to outright reductions in the cost of producing or delivering services, or to improvements in their quality at no additional cost, as *Exhibit 1* illustrates. In the happiest of circumstances, the study will recommend ways in which both cost reduction and quality improvement can be achieved simultaneously. Its major benefit, however, is that it identifies resources that can be reallocated to service areas where they are most needed.

A cost-management study must not be a short-term, narrowly focused project. Rather, it should be an exhaustive process of assessing the quality and cost of an institution's support services, and identifying opportunities for improvement and enrichment. It focuses on all the functions that support a university's teaching, research, and community service objectives, and recommends ways in which these functions may be performed better, at less cost, or both.

The product of the study will usually be a set of recommendations that one or more service areas—such as academic support or student services, for example—be changed to function more effectively. Recommendations for improving organizational effectiveness will consist of specific changes in the college's structure, processes or resources, and will include the range of savings that can be anticipated.

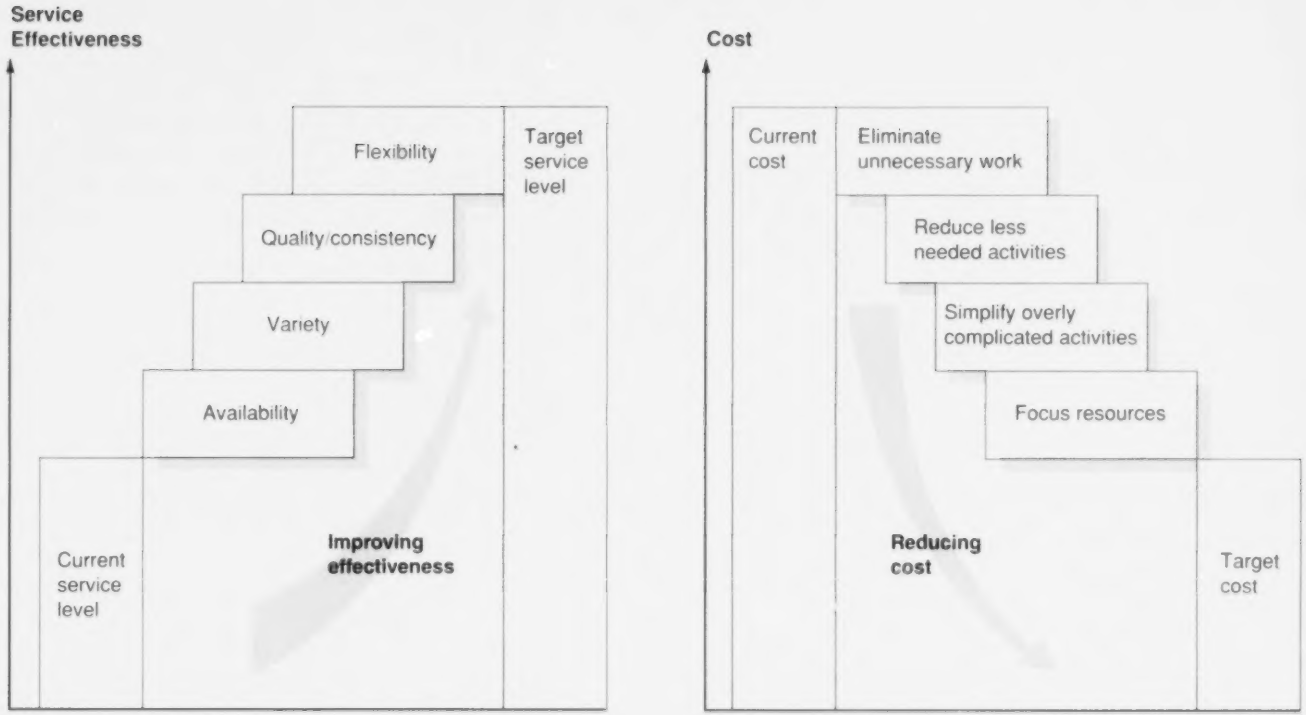

Exhibit 1. The Goal: Improve effectiveness and reduce cost

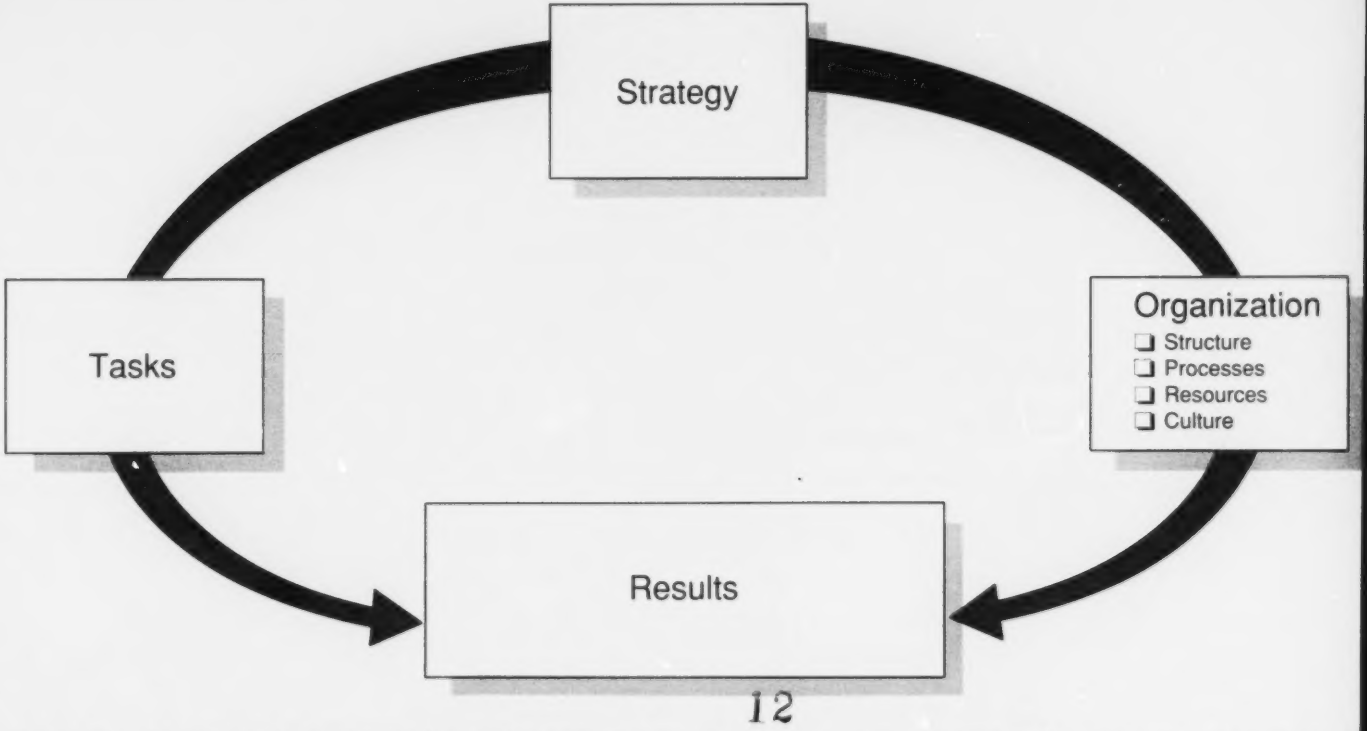

Figure 1. Strategy determines both the specific tasks to be performed and the way in which work must be organized to produce desired results.

Bringing Work Into Focus

Colleges and universities are organized to achieve numerous and diverse goals. A comprehensive cost-management study is based on the premise that there are four factors that determine success in achieving those goals: the university's strategy, the work it performs to pursue that strategy, the way in which work is organized, and the actual outcome or results. These four factors are defined as follows:

- *Strategy* guides how the university will fulfill its mission. Strategy begins with the demands of constituents—students, alumni, employees, the community, and government—and then defines the kinds of programs and levels of quality that will meet those demands. Staff and resources are allocated accordingly.

- *Work* consists of the tasks performed, functions fulfilled, and processes followed to carry out the strategy.

- *Organization* encompasses the way work is structured, staffed, and performed. It is influenced by the institution's shared values and attitudes and by the way in which resources are allocated among various functions and tasks.

- *Results* are the achievement of the university's fundamental goals. Basic results—instruction, research, service, and the preservation of knowledge—are often difficult to measure. But there are some indicators of a school's success, such as rates of retention and graduation, achievements by students, faculty publications, grants awards, and affirmative action records.

A cost-management study focuses primarily on organization. Because poor organization can hinder performance and increase costs, the study scrutinizes the "fit" of

various organizational components. There are four of them: structure, processes, resources, and culture.

- *Structure,* the most visible and well understood component of organization, is the formal arrangement of roles, responsibilities, authorities, and accountabilities.
- *Processes* are the systems and procedures the institution uses to reach decisions, guide work, and allocate resources.
- *Resources* are the institution's human, physical, market, and financial assets.
- *Culture* is the shared values, beliefs, norms, and attitudes of the university group, and the view the institution has of itself.

The cost-management study must determine how these organizational components interact to reinforce or restrict the work to be performed. How, for example, are authority and responsibility joined? Is the institution top heavy with senior management or, conversely, does the senior administrator have to make do with too little help? Does the university's view of itself match reality? How must the culture change to support a change in long-term goals?

Attributes of a Cost-Management Study

An effective cost-management study should be:

Holistic: The cost analysis encompasses all administrative components of the college or university. This comprehensive approach ensures that no opportunities for saving are missed, that each nonacademic department is subjected to a uniform standard of scrutiny, and that organizational interrelationships are analyzed for fit and efficiency.

Long Term: The study is developed and conducted within the context of the university's long-range planning and financial goals. It also serves as a stage in the university's ongoing effort to understand its problems, build a consensus for addressing them, and forge a plan to solve them.

Strategic: The study is undertaken within the framework of the university's stated priorities and goals, the constituencies it serves, the programs it wishes to emphasize, and the way it chooses to relate to its competition.

Focused on People and Work: The study evaluates the work required in each service area and determines the staff size and qualifications necessary to perform it efficiently.

Alert to Cost/Benefit Tradeoffs: The study evaluates the services provided by each operating unit, determining whether the cost of each service is justified. The study team applies the principle of diminishing marginal returns, which dictates that, at a given point, the performance of additional services yields marginal benefits that do not justify the additional cost.

The study team must report periodically to the university president and steering committee, whose responsibility it is to:

- provide management insight
- monitor overall study activities
- hold the study team accountable for its actions.

Once completed, the study and its results can serve as the touchstone for the university's ongoing cost-analysis and management program, particularly during its annual budget review process.

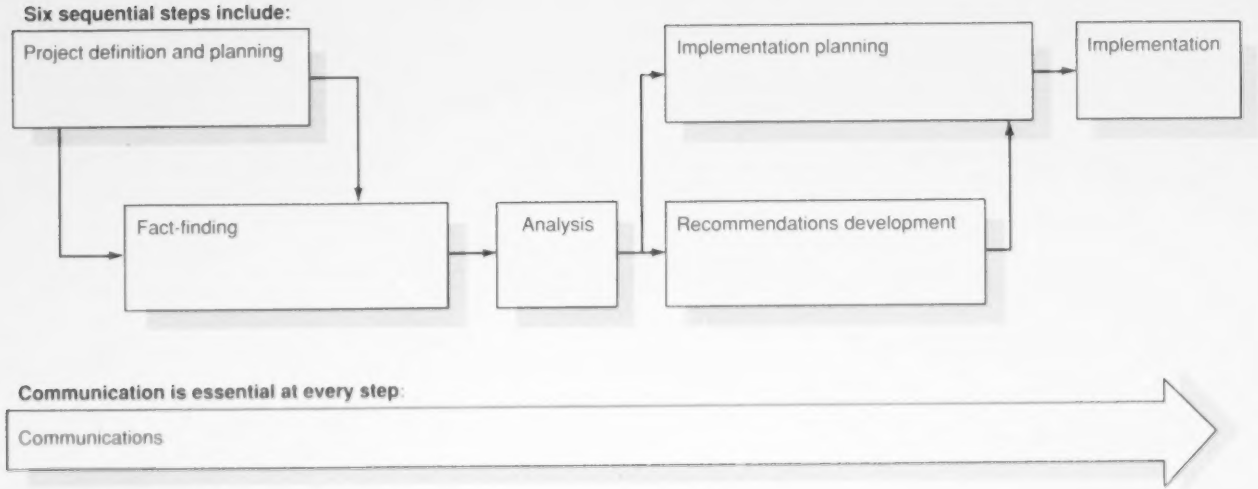

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Exhibit 2. The seven basic components of the cost management study

The Comprehensive Cost-Management Study

The Seven Basic Components

There are six steps in conducting a comprehensive cost-management study. In addition, communication must be maintained throughout the process. Thus, there are seven components:

1. Project Definition and Planning
2. Fact-Finding
3. Analysis
4. Recommendation Development
5. Implementation Planning
6. Implementation
7. Communication

One: Project Definition and Planning

Because this crucial first step sets the tone, scope, and goals of the project, it is the responsibility of the university president, as chief executive officer, to be the principal mover in the effort to reduce costs. The president must ensure that the study is undertaken within the context of the university's broad strategic objectives. These go beyond teaching, research, and community service to encompass such questions as:

- Where is the university headed now? What are its aspirations? What initiatives must it take to fulfill those aspirations?

- What human and financial resources are presently available? Can they be redeployed to accomplish new or revised strategic objectives?
- What organizational and operational configurations are needed to achieve long-term goals? Are they different from present configurations?
- How can the university find the money to achieve specified objectives outside the current structure (e.g., establish a center for language study, increase the computer science laboratory capability)?

In most instances the president lays the groundwork for a comprehensive cost-management study by first winning the support of the board of trustees and then of the "cabinet" of senior officers who report directly to him or her. Sometimes the board takes the lead, directing the president to undertake the study. The next step is to initiate a public awareness program for the proposed study. Together, the president and senior officers identify and explain to the university's constituents the issues with which it is contending, and reveal why a study is necessary. The basis for the public awareness program is senior management's preliminary financial analysis that shows the need for controlling costs and setting priorities for the allocation of resources.

In this, as in all succeeding steps, communicating the urgency of the study to the university's constituencies helps win support and personal involvement. Furthermore, communicating the range of opportunities that underlies the study will advance the administrators' strategy. The president and cabinet must always maintain a balance between "urgency" and "opportunity" in their communications. The emphasis should not be how much the university will save, but how the savings will be realized and can be reallocated to advance the university's mission.

After identifying (through preliminary study) the financial problems or anticipated shortfall, the president and cabinet appoint a steering committee to formulate a strategy to guide the cost-management study. The committee then sets forth the project's purpose, approach, work tasks, budget, and timetable. It also prepares the answers to the following key questions:

- Who should be assigned to staff the project?
- How will their regular work assignments be performed?
- What will be their relationship to the study committee?
- What supplemental expertise or staffing will be needed?
- How will the committee ensure that the project remains on course, that its operational stages are conducted according to plan and on time, and that task leaders are held accountable?
- How will the study be presented to the trustees and the university's constituencies?

Effective planning depends on choosing the right constituencies to consult with, which topics are discussed with each of these, and on maintaining an atmosphere of forthrightness in all discussions. The various constituent groups should be involved to the degree that they have been involved in similar decision making in the past. By keeping the planning process an open one, openness and involvement will be encouraged at a later stage when critical decisions are made.

Trustee participation is important to all of a university's major projects, and a comprehensive cost-management study is certainly one of them. In fact, this project enables the president to draw many more trustees closely into

university affairs. And they can be of great help. Trustees can, for example, encourage support for the project among certain groups, or point out areas that they believe warrant close review.

Surveys are another important tool. They can help determine the concerns of students, employees, and other groups—information that is essential to sound project planning.

The ultimate success of the project depends to a large extent on the steering committee's precision in defining the scope of the study. Its breadth and thrust should be sufficient to encompass all major support-service areas and their interrelationships. It should target areas to be improved, units to be studied and issues to be resolved.

Example: A declining school-age population, increasing costs, and a faltering local economy spelled trouble for a Midwestern public university committed to recruiting students from lower-income and minority homes. For several years, the president and his cabinet attempted to reduce costs and increase revenues by taking such steps as redefining priorities and making across-the-board budget cuts.

Recognizing the need to develop a long-term cost-control plan, the president convened his cabinet to consider budget alternatives. He matched projected revenues with near-term spending goals, and pointed out the obvious shortfall. He then asked each senior manager to target specific budget cuts in his or her support service area to make up the shortfall. Although it appeared that a consensus was reached, this plan failed because some managers were not forthright and others made end-runs to the university trustees in their quest for exceptional treatment.

The president saw that he needed a better understanding and greater control of the cost containment process. Once again he convened his cabinet. At this meeting they agreed on the need to analyze costs more systematically in all administrative areas, and to appoint a steering committee to oversee the analysis. To ensure objectivity, the university engaged outside advisers to conduct the cost analysis study.

A major goal of the senior administrators was to reduce the total annual budget by $9 million, an amount that would put revenues and spending into positive balance and provide some flexibility in reallocating resources. Another goal was to increase salaries and improve facilities in order to attract faculty who would enhance the standing of the university's professional schools. This, of course, would require resources. In its preliminary reconnaissance, the study team found potential for improvements that, if acted on, could provide $11 million in annual savings. This amount became the target goal for the study.

As a result of their own earlier studies, the administrators were able to identify some operations that needed special study and others that offered unusual opportunities for reorganization. For example, a newly appointed head librarian, recognizing that the study could serve her needs, cooperated fully in the evaluation of her operation. With her help, opportunities for cost containment in the library were uncovered during the fact-finding phase of the study. Further scrutiny during the analytical phase led to specific economies that will account for close to $1 million in annual savings.

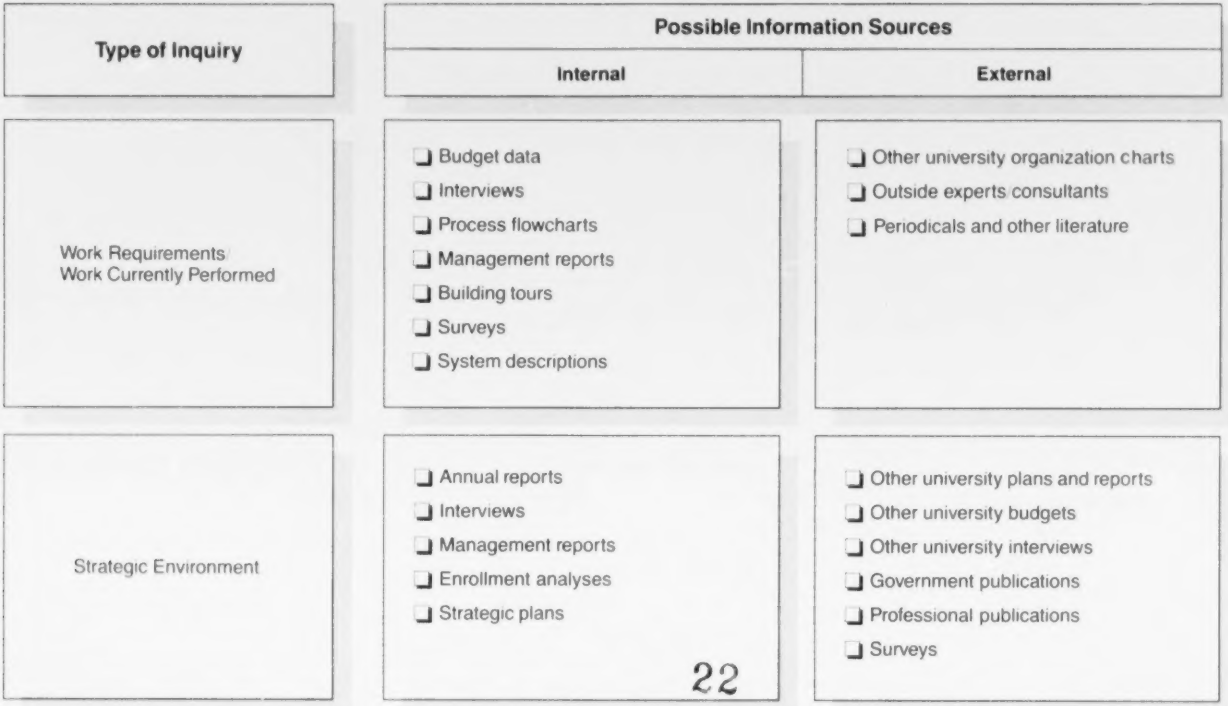

Exhibit 3. Information on work environments is gathered during the fact-finding process

By becoming leaner and more efficient, the university was able to get more value for its money. And that accommodated a reallocation of resources, strengthening the university's ability to achieve its long-term goals.

Two: Fact-Finding

The second step in a comprehensive cost-management study is fact-finding. This is the process by which the team finds the answers to the questions: What work *is done*? What work *needs to be done*? Are they, in fact, the same?

Rarely does there exist only one possibility for reducing costs. Fact-finding should identify *all* possible cost-containment alternatives so that their relative merits can subsequently be evaluated in light of the university's strategy, goals, and competitive environment.

In fact-finding, the study team gathers information about the work being done to accomplish the university's mission, relying primarily on document review, surveys, and interviews, as shown in *Exhibit 3.* Its objectives are to understand how the work is organized, staffed, performed, and delivered, and to identify deficiencies that may suggest improvements.

Fact-finding relies initially on gaining information by reviewing documents, interviewing people about their work—in person, through questionnaires, and by surveying users of services. (See preliminary topical interview guide on page 19.) This helps to determine work requirements and whether the work that is actually being done is the work that should be done.

All work, including that of support services, must directly or indirectly add value to the university mission; any activity that does not meet this criterion is

not a work requirement. Sources of information on work requirements include:

- budgets
- process flowcharts
- management reports
- output reports
- organization charts
- systems descriptions
- building and plant tours.

A number of survey tools are used to ensure that the information obtained is as objective and consistent as possible. For example, a questionnaire typically used to obtain position information asks for a detailed description of the employee's general responsibilities, a list of specific duties and the time allocated to each, a list of the positions and the number of employees he or she supervises, and suggestions for changes in current duties that the employee believes would improve his or her effectiveness.

The compilation and study of all these pieces of information help the study team to acquire a thorough understanding of the university's strategy, work requirements, external environment, and day-to-day activities in support of its mission. Armed with this information, the team next compiles a relatively short list of vitally important support activities that must be performed successfully if the institution is to accomplish its mission. Among such activities are planning and budgeting, admissions and registration, and maintenance and custodial services. Any change in the performance of these activities could have a disproportionately large effect, positive or negative, on the university's performance. This exercise provides insights that guide the remainder of the study.

Preliminary Topical Interview Guide

Introduction

- Purpose of the study
- Confidentiality

Organizational Structure

- Roles and responsibilities of each unit position
- Interactions with other units

Work Requirements

- Work flows (steps, timing)
- Workload indicators
- Service level standards

Staffing Rationale

- Responsibilities
- Skill requirements
- Scheduling

Key Processes

- Planning
- Budgeting
- Student registration, etc.
- Admissions
- Personnel
- Purchasing
- Others

Evaluation of Services Provided by Other Departments

- Your department's services
- Services performed by other departments

Example: In a large urban-based state university, several functions were being performed by both the central administration and by the separate colleges. The study focused on the potential for cost savings in a redistribution of functions between the colleges and the university.

The fact-finding step uncovered ten functions that were being shared, to varying degrees, by central departments and the colleges. They were: academic guidance, admissions, affirmative action, budget planning and processing, development, facilities planning, fund raising, public affairs and promotion, registration, and grants and contracts application and processing. Fact-finding also identified positions with similar responsibilities throughout the colleges, e.g., processing transfer admissions, academic advising, maintaining student records.

The primary questions the team sought to answer in the fact-finding phase were:

- Which responsibilities devolve to the colleges and which to the university?
- What services and positions overlap and where is there duplication of effort?
- Which functions should be shared and which could be improved by placing them solely at the college or university level?

The review of organizational charts, interviews with key administrators, and analysis of position-survey questionnaires enabled the team to clearly identify positions with similar responsibilities throughout the colleges. The outcome of these fact-finding activities was the formation of an objective basis for reaching conclusions as to what should be done to eliminate

duplicative, overlapping, costly services without sacrificing efficiency or quality.

Fact-finding also uncovered many fiefdoms in which employees were doing what they wanted to do, without regard for what needed to be done. Many were overqualified for what they were doing, and decisions were being made on the basis of power rather than the need for work to be done. As a consequence, work was redundant, time was wasted, and essential functions such as registration and financial aid were over-complicated for students.

The process of defining work requirements made clear the kinds of redundancies that were embedded in the system, which led the study team to simply look for more of the same—which they found. As this pattern multiplied, solutions became rather obvious: certain functions had to be allocated to either the university or its colleges.

The team then made use of "alternative analysis," an analytical tool that helped determine whether particular functions should be centralized, decentralized, or shared by the university and the colleges. Several functions such as affirmative action and facilities planning were enhanced through increased automation, which enabled the university to bring the functions under one roof and eliminate them in the individual colleges, reaping the dual benefit of saving money and at the same time improving service. Savings were in excess of $1 million.

Three: Analysis

Using information obtained in the fact-finding step, the study teams identify cost-cutting and service improvement opportunities. Analysis is perhaps the most difficult task in the study because it requires the team to distill an ocean of

facts, hypotheses, and issues down to a teacup of the most promising cost-management opportunities, as *Exhibit 4* illustrates. The key to effectively putting the data through the "analytical screen" lies first in analyzing all the factors identified in the fact-finding step, and second, in making a series of decisions that progressively eliminates less promising hypotheses and issues.

For each work unit under study, the team prepares a statement that includes descriptions of the problems uncovered, evidence, causes and implications. It then compares the work actually being performed with the work required to accomplish results, paying particular attention to the most important work requirements. If unnecessary activities are taking place, or if the unit performs necessary activities by using more resources than are required, the unit is inefficient. When unit inefficiency is detected, further detailed analysis must be made to uncover specific inefficiencies.

Similarly, if work requirements are unmet, the team must investigate the cause. Possibly, an organizational flaw prevents the work from being accomplished. Perhaps the requirement is not recognized. Or the university may have deliberately decided not to invest the resources to meet the requirement, for example, by failing to allocate skilled staff to run a new laboratory.

Example: A northeastern university maintained a staff to help the university and its subdivisions plan and develop construction projects. The office was fully accountable for project execution; it negotiated contracts, supervised work, and certified payments to architects, vendors, artisans, and construction contractors.

The study team discovered in its fact-finding step that the office was performing its work inefficiently, if not incompetently. Individual projects were plagued by

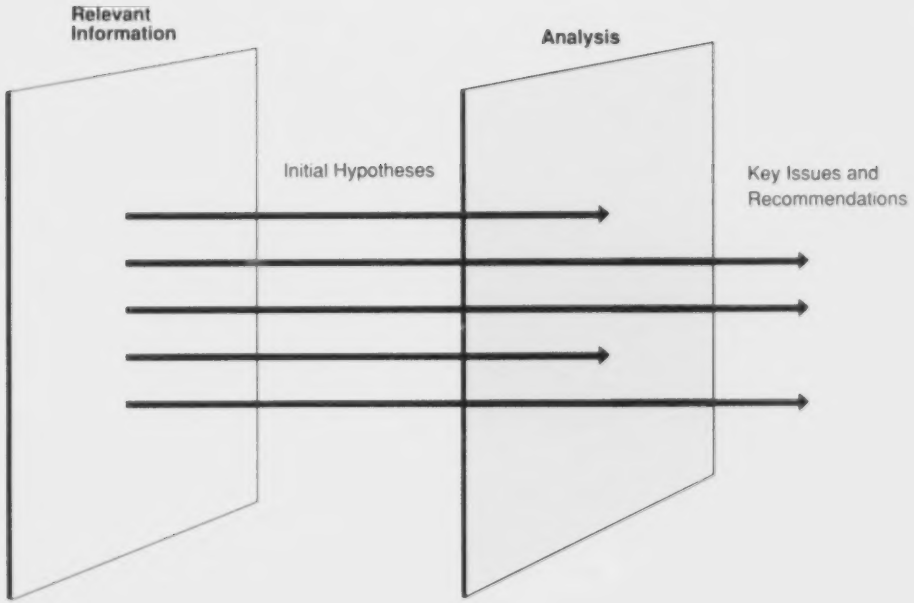

Exhibit 4. Analysis screens all relevant factors to identify key issues and recommendations

delays, quality problems, and unapproved changes. Although the construction-management office was supposed to control *all* university construction, representatives of the subdivisions for which the projects were undertaken found it necessary to police the construction on a daily basis to ensure satisfactory progress.

These representatives generally functioned under obscure titles not suggestive of construction management. Their activities caused confusion, dissension and duplication of effort. The outcome of such ill-directed and wasteful activity was that administrators of the individual schools had little confidence in the professional competence and dedication of the capital construction office.

The team's eventual recommendations called for reorganization and professional upgrading of the capital construction management office's staff, better liaison with individual schools and other university departments, improvement of the accountability systems, and a reaffirmation of centralized control and management of all university construction.

Four: Recommendation Development

The task of developing recommendations requires creative thinking, rigorous analysis, and careful consideration of all reasonable alternatives to existing practices and procedures. Alternatives might apply to methods or procedures, staffing arrangements, or organizational structure. The task of examining alternatives is done in a series of steps, described below and illustrated in *Exhibit 5.*

Identify Alternatives: The study team questions all current practices and promotes development of alternatives without immediate consideration of the obstacles. The

focus must be on the work requirements deemed important in accomplishing the university's mission.

Evaluate Alternatives: The proposed alternatives are subjected to a set of specific test criteria, and the survivors—the preferred alternatives—are further evaluated for their potential effect on university operations. Each proposed alternative is evaluated in terms of the following criteria:

- How closely does the alternative meet work requirements?
- To what extent does it further or support the university's strategic directions?
- Does it simplify or reduce the cost of essential work?
- Does it permanently eliminate nonessential work?

The alternatives that have survived this close scrutiny and careful evaluation are written as prelminary recommendations.

Develop Action Plans: These plans reinforce the feasibility of the study recommendations by showing how they can be introduced. Action plans are the starting points for implementation of recommendations. A plan describes the task to be performed and its relationship to other tasks. It also gives the performance schedule, the personnel responsible, and the startup and ongoing costs.

Review Recommendations: Before recommendations are presented to the cost-management steering committee for review, the study team makes certain they are in absolutely final form. Several alternatives may be included as back-up for particularly controversial recommendations.

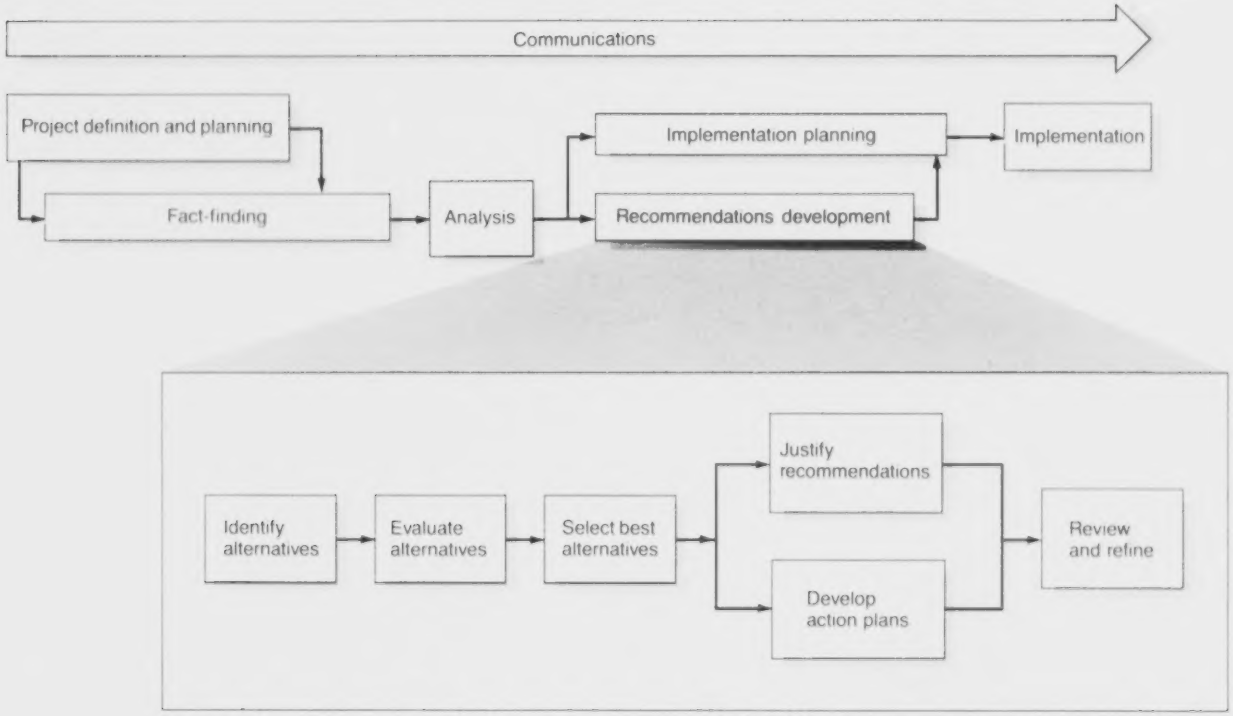

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Exhibit 5. The recommendations development process

The team must resist the temptation to seek approval for recommendations, particularly controversial ones, at an early, conceptual stage. To seek early approval would dilute, if not totally negate, the rigorous evaluation of alternatives, which adds significantly to the end value of the cost analysis process.

Example: A cost-management study at a large Midwestern university uncovered inefficiency and excessive cost in academic-advisement and registration.

The project team found that registration had to be completed by the student, in person, at the central registrar's office. But student records were divided between the registrar's office and the college the student attended. Therefore, a student would have to go to his or her college for academic advice, such as for a change in major, to learn of course requirements, or to transfer courses. If the student attended more than one school within the university, he or she had to visit each of them to assure completeness and accuracy of information and guidance. It was a time-consuming process.

Major elements of the study team's recommendations were:

- Telephone registration for matriculated students.
- Easy access to course requirement information and student records through a new computerized degree-audit and student record system.
- Consolidation of academic advisement in one office for all university students.
- Retention of advisory and registration services at remote branch campuses.

The recommendation's benefits included:

- Streamlined decision making and elimination of duplication.
- Significant staff reduction and other savings through automation and consolidation of services.
- More coordinated and consistent student services.
- Enhanced ability to accommodate workload peaks.
- Greater convenience for students.
- Leveraged managerial skills, computer services, and other key resources.
- Simplified communications and reporting.

Five: Implementation Planning

In labor-intensive institutions such as colleges and universities cost control focuses on reduction and reallocation of staff. The pain of job loss or reassignment can be reduced if the best approach is chosen. There are several approaches to staff reduction, as can be seen in *Exhibit 6.*

Often, the university has already initiated a "hold fast" action by slowing recruitment, lengthening the periods between promotions, and putting employees on sabbatical. These actions may have preceded the cost-containment study. More severe measures, involving transfers, hiring freezes, voluntary terminations, and early retirements are rarely undertaken until the university has developed a strategy which includes certain guiding principles.

Establishing these guiding principles is extremely important because the university's integrity, image, and reputation, and the morale of its employees are affected by the principles adopted. For example, the principle of equitable treatment encompasses the belief that it is

essential to be fair to employees during periods of staff reduction. Key elements of this principle include:

- Effective communications and advance notification of individuals, groups, or the entire community regarding major actions, as appropriate.
- Consistency in the process of selecting personnel to fill newly created positions.
- Well-conceived personnel procedures designed to reduce the strain on employees.
- Reasonable severance arrangements.
- Post-termination support and assistance.

After the guiding principles have been adopted, the university communicates the rationale for impending changes to all personnel and to its other constituencies. It can best do so by presenting the rationale as part of a progressive, coherent strategy—not as a reaction to temporarily adverse conditions.

Line managers generally make the personnel decisions. To ensure adherence to uniform standards at all levels and in all divisions of the university, the managers are given the staff-reduction criteria adopted by senior management. They are also provided with all necessary forms and documents, written guidelines, and, if necessary, one-on-one assistance in applying the criteria to their personnel decisions.

Formulating the Plan: The implementation plan, in essence, meshes the approved recommendations with the human resource strategy. There are four steps:

1. Review approved recommendations to determine the actions required.
2. Prioritize and sequence tasks.

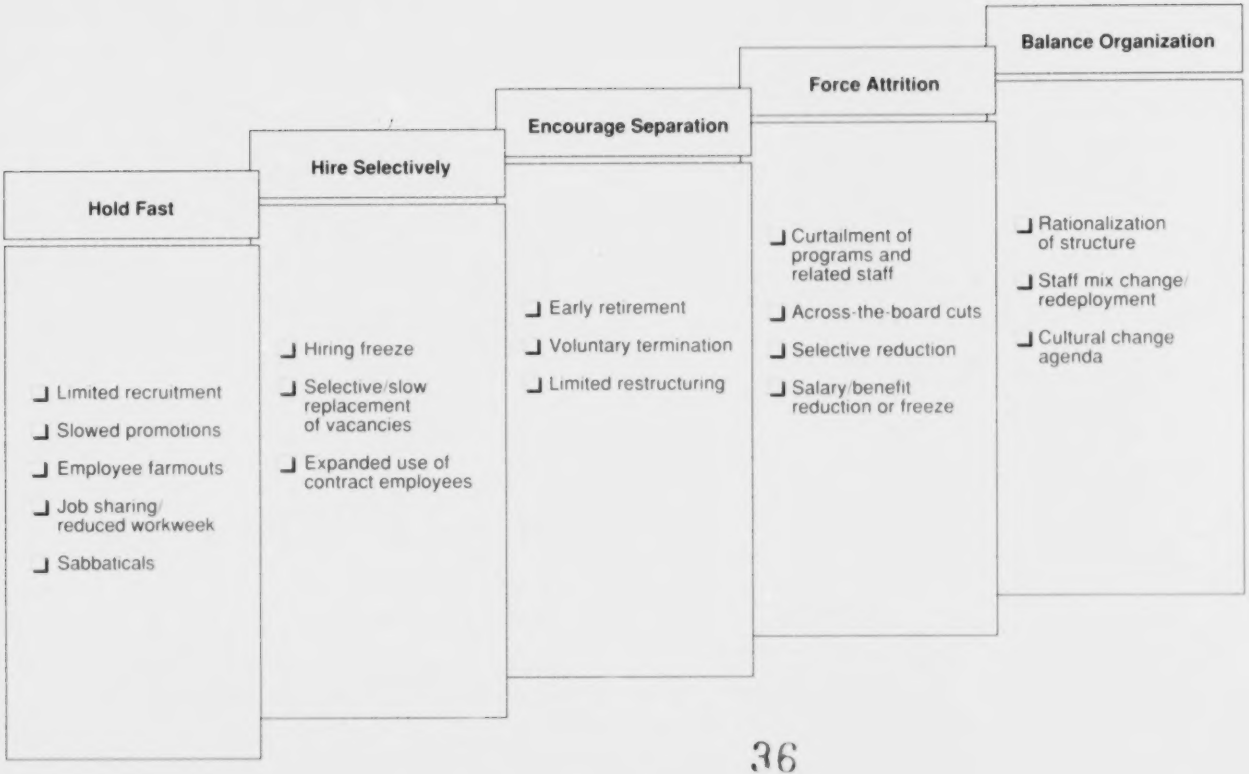

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Exhibit 6. Approaches to staff reduction

3. Estimate the need for personnel, funds, or other resources for the completion of each task.

4. Devise an implementation schedule.

Appointing the Implementation Task Force: Implementation is coordinated by a task force appointed by the university president, as shown in *Exhibit 7.* While monitoring the process, task-force members advise managers in charge of day-to-day implementation tasks.

Reviewing the Plan: The principles guiding personnel decisions, the detailed plan, and the proposed implementation task force are presented to the university president and the study steering committee for approval before implementation can begin. The plan also is reviewed by the institution's human resource and legal departments to assure compliance with applicable laws and regulations.

> *Example:* At a public university in the Midwest, a good deal of time was invested in the implementation-planning phase. Once the plan was ready for unveiling, the president, steering committee, and project team made every effort to communicate the cost-study recommendations and implementation plan to all concerned people in a timely fashion, in order to give them ample opportunity to react to the report.
>
> While everybody involved with the university knew the cost-study report was coming, the persistent concern of the presidential task force was how it should be distributed. Should the board be told before the staff? And if so, would the staff end up reading about it in the newspapers because a board member had talked to reporters?
>
> After much discussion, the vice presidents in the project-planning group agreed on a press conference

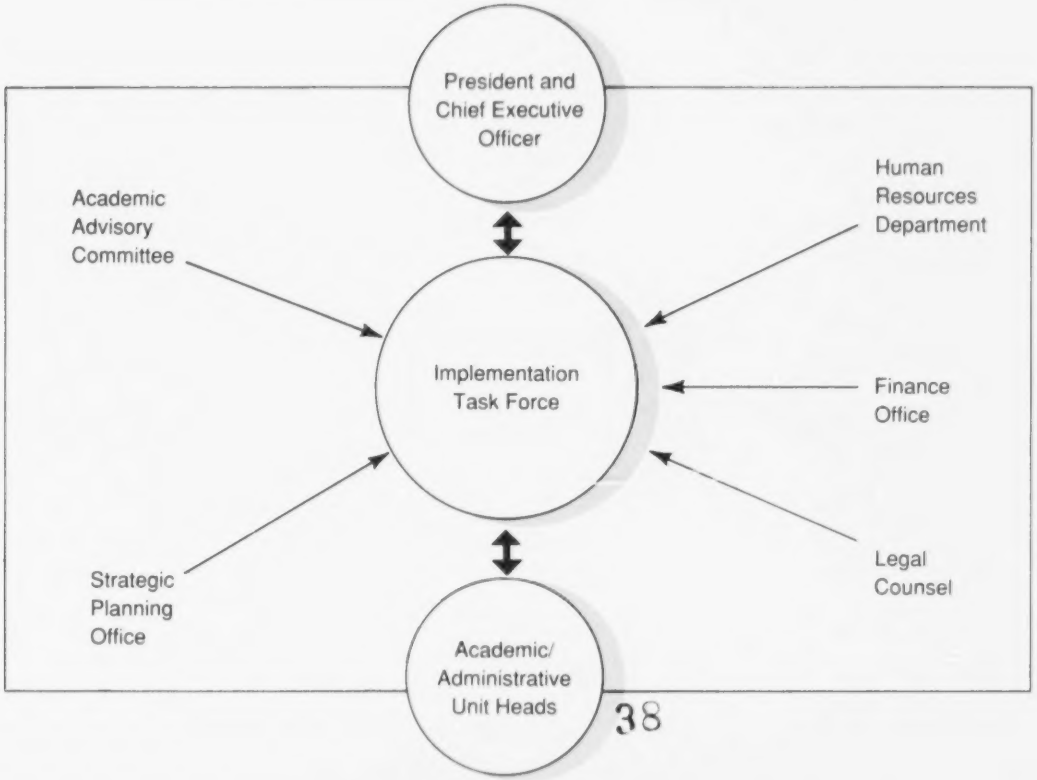

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Exhibit 7. In the implementation team, the implementation task force has a central role

to announce the study results at the very time that employees were being told about them at staff meetings. A total of 20 staff meetings were held, covering all of the university's operating areas. Meanwhile, the president briefed the board of trustees on the study results and the way in which the implementation plan was proceeding.

The president's message to the board, through his senior officers, to managers and staff, was that the report should be viewed as provisional—not set in cement. "We got these guys [outside advisers in this case] to tell us what we could do, and this report is what they said. Let's talk about it."

The president reminded those concerned that there were three conclusions they could reach in evaluating the recommendations:

1. They can be implemented.
2. They can be rejected. ("Then recommend alternatives," he said.)
3. They can be studied further.

One vice president clearly did not buy into the recommendations and, though cordial, was not supportive. The president feared that her attitude would set the wrong tone with her staff and other people with whom she dealt on a regular basis. In subsequent free-wheeling meetings, however, reasoned discussion of her concerns and those of other members of the cabinet brought about unanimous support.

In these meetings, some officers and managers were especially helpful. The financial vice president, for example, set a positive tone by speaking constructively with the executives working under him. He told them what the president was personally doing about

the study, and how the president had given the vice presidents ample time to review the recommendations with key staff members.

The Bottom Line: Although many were concerned, the feeling was conveyed that the university community was quite able to cope with the situation. Moreover, administrators believed that the project had added to their knowledge and ability to match work with personnel.

Six: Implementation

Implementation is the execution of the plan. The implementation team, through its task force, monitors progress and reports periodically to the president. The team must also resolve unanticipated issues through adjusting the plan or by instituting action at the line-management level.

In a sense, implementation is a never-ending process. Once in place, recommended operational, procedural, or staff changes, like all other aspects of university operation, must be monitored and periodically reevaluated to assure their continued effectiveness, particularly as needs change.

The objective is to make cost improvement a routine part of doing business or, in the words of a long-time college administrator, "to set a theme of getting it right and keeping it right." Ongoing cost monitoring and control makes it possible to rationally redirect resources as new demands arise.

Key elements of a sound monitoring process are:

- A reliable method of communicating to employees a vision of the university's educational and research role, and the importance to that mission of productive work by all.

- Dependable support systems, such as budget controls, information systems, student-market analyses and employee-survey programs.
- An established decision-making process that the university's management can adhere to with confidence and comfort.
- Open channels of communication that encourage feedback from various constituencies, giving them the opportunity to voice their views on policy decisions and actions.
- An honors and rewards program that gives personal and public recognition to employees and others who make significant contributions to the university's mission.

Example: Among the recommendations of a cost-management study at a Midwestern university was the reduction and reorganization of the student-services staff.

Eight of 30 jobs were to be eliminated. The manager of student services, in conference with his superior, the Provost for Academic Affairs, identified the staff members who would not remain. A prime concern in implementing the recommendation was to preserve good relations with remaining employees. The aim was to be as candid as possible with them, and openly show every consideration to departing staff members.

In separate interviews with each staff member, the manager told of the reorganization recommendation and tactfully asked about personal career plans. He also canvassed the university for job openings that might be suitable for departing employees.

Through this careful sifting process, the manager was able to reduce his staff of 30 to 22 with no forced terminations. Of the eight who departed, two took

early retirement, three were transferred to other departments, one went on sabbatical, one resigned for a job elsewhere, and another decided to attend graduate school. Thus, the manager was able to accomplish substantial staff changes without disrupting relations with personnel.

Seven: Communication—An Ongoing Task

The one constant of a cost-management study at a college or university is communication: communication with the board of trustees, with management, staff, students, alumni, the community, business, government, and with any other groups and organizations that might be counted as part of the institution's broad and varied constituency.

Too often, this function is inadequately planned or, worse, totally ignored. To be ambivalent or unclear about why the university is embarking on so comprehensive and far-reaching a project as a cost-management study could indeed be self-defeating.

The objectives of the continuing communication process are to avoid surprises and to win as much support and involvement as possible. To be effective, communication must convey a wide understanding of the goal, process, and ultimate results of the study to the people who have a need or right to know, and to those who can have an influence on the study's outcome—and the university's fate. By definition, the communication task is ever present, from beginning to end.

A properly planned and executed communication program can even transform negative perceptions into positive ones—the study can create either a sensation of crisis, or a feeling of controlled progress through an emphasis on positive outcomes, such as:

- more effective utilization of resources in service to students and the community
- a leaner, more efficient organization capable of serving an even broader mission while holding the line on tuition by containing costs
- enlightened employees who are more aware of the university's mission and of their own contribution in achieving it
- improved alumni and corporate relations.

Among the advantages of a sound communication strategy is that it can encourage feedback from employees and others concerned with the university's situation. The more university administrators know about the feelings, concerns, and fears of its employees and other constituents, the better they can respond, helping to minimize stress and win support for the proposed changes.

Communications Media and Devices: From the university's perspective, communication actually is a two-way street: the administration wants to receive almost as much information as it gives. So every outgoing message contains seeds of encouragement to the college community to tell of their feelings and reactions, and perhaps to volunteer their help in ensuring the project's success.

Outgoing information takes the form of *news releases* to local newspapers and radio and television stations, *newsletters,* or internally distributed *memoranda. Meetings* and *discussions* can also be important. To encourage feedback and to respond to questions, a well-staffed, well-publicized *hot line* is set up, perhaps toll-free.

Incoming information is derived primarily from *surveys, questionnaires,* and *interviews* conducted among employees, students and other constituencies whose help and support are needed. These must be conducted with discretion and

professionalism. The administrators need to decide who will receive questionnaires and how. In one-on-one interviews, who will be the subjects and who will ask the questions?

Preparing Communication Strategy: The task can be handled best by taking an honest and timely approach that anticipates employees' concerns and seeks to minimize their inevitable stress. The strategy for communicating with employees should be developed and refined throughout the life of the project.

Among the elements essential to the creation of an effective communication strategy are:

- Identifying the employees to whom the study should be announced.
- Determining how detailed the presentation should be of the reasons for the study.
- Identifying particular targets for quality improvement or cost reduction.
- Explaining the study process.

The Communication Sequence: While communication takes place throughout the study, as is illustrated in *Exhibit 8,* there are six distinctive sequential elements:

1. *Study Announcement:* This is made shortly after the study is approved, to explain why it is necessary, and to spotlight the university's commitment to keeping employees and other constituencies informed.
2. *Study Plan:* After the initial planning phase is completed, the plan is presented through presentations and published reports which explain the study's scope and timetable.
3. *Study Updates:* Periodic communications are issued for the purpose of reporting on progress, encouraging

comments from employees and other interested parties, and to allay employees' concerns by discussing issues raised by them.

4. *Study Recommendations and Implementation Schedule:* This information is communicated as soon as decisions have been made. It indicates in broad terms the actions to be taken and the time frame for them, along with the principles and policies governing implementation.

5. *Implementation Updates:* These periodic reports discuss progress implementing the study recommendations, and describe changes, if any, in the plan.

6. *Implementation Conclusion:* This step in the process, usually the final communique, tells in some detail of the success of the project and describes how the recommended changes are being made.

   Example: The administrators of a New England university were well into a cost-management study when they discovered they had been wrong in assuming that line managers whom they had briefed on the study were keeping their staffs informed. The floodgates of rumor opened wide.

   Tensions among employees mounted as rumors of cutbacks, reorganization, transfer, wage cuts, and demotion washed over them. Productivity fell with morale. Many employees openly put themselves into the job market; some actually resigned. Rumors became items in the local news media, and board members began to offer off-the-cuff advice.

   The president and his steering committee strove to put the project back on course. News releases and a newsletter were issued in rapid order. A telephone hot line was set up, and detailed presentations were made at sometimes stormy meetings. Despite this valiant

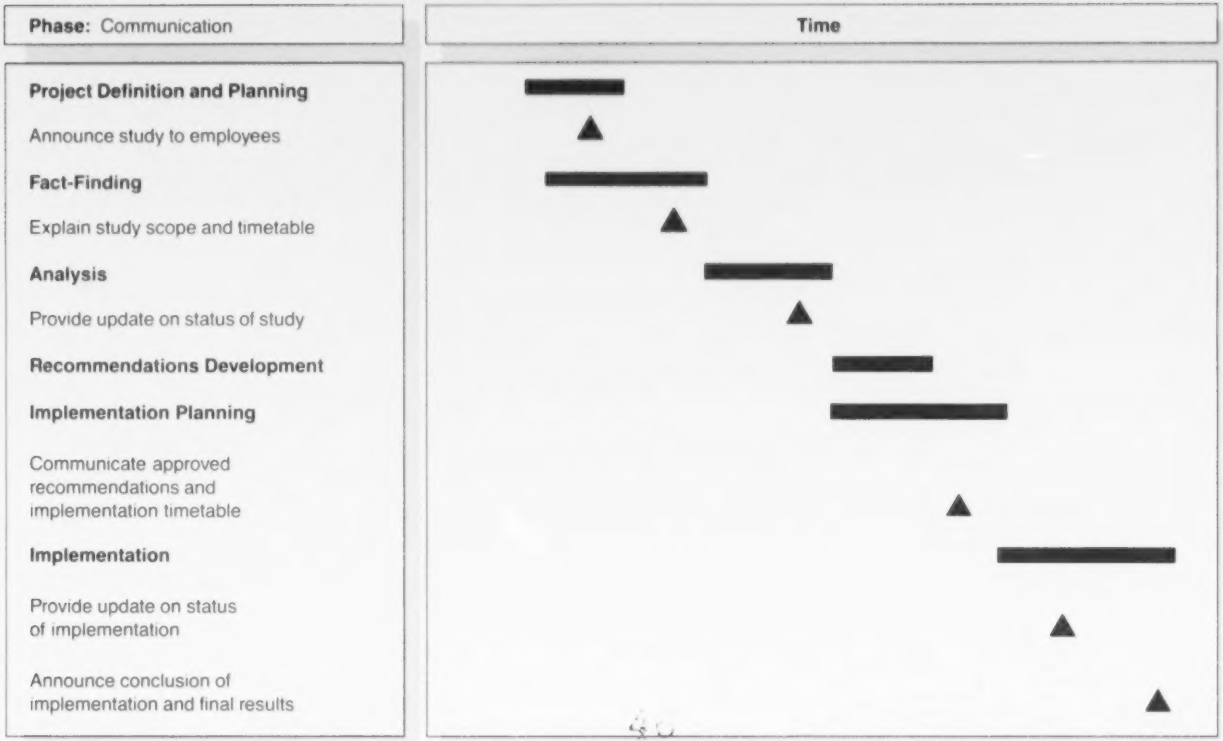

Exhibit 8. A model of the continuing communication process

effort, some observers felt that the experience left wounds that may be a long time healing.

No matter how well you communicate, employees still know that cost reduction means the elimination of jobs. The ability of employees to accept and deal with that reality will be affected by their understanding and acceptance of the cost-management project, and by their involvement in it. And that, in turn, will be influenced by management's employee-relations and communication skills.

Types of Recommendations

The end product of a cost-management study is a series of recommendations to improve services and reduce costs. Generally, the recommendations are grouped into several broad categories:

Structure

Recommendations could require the creation of new organizational structures, positions, and reporting relationships. Or they could revise individual roles and responsibilities.

Example: Perhaps the most important result of a cost-management study at a major Midwestern public university was the restructuring of its top-level organization. Although it was not among the president's original goals, the study showed that senior management needed restructuring.

Problem areas were identified by analyzing the effectiveness of the university's existing structure. A key question was asked: is the organization, as structured, accomplishing the university's objectives? The team found that some functions were duplicated while others were neglected. This led to the following recommendations:

- Create a central office of strategic planning, reporting directly to the president, to replace the existing, fragmented approach to strategic planning. Its focus should be university planning and resource allocation.
- Consolidate the diverse planning activities being conducted by various university units into the new office of strategic planning and finance/administration.

- Place an upgraded office of affirmative action under the president to give it the policy-making and advocacy status needed in order to direct and coordinate affirmative-action efforts throughout the university.
- Establish the position of vice president for research, to strengthen and consolidate university research.
- Combine financial and administrative services to enhance efficiency and reduce costs.

The president and his cabinet reviewed the findings that led to these recommendations and agreed to establish the new offices and eliminate others, as recommended.

Service Definition and Delivery

Recommendations may include combining duplicative services, particularly if the same constituency is being served. Or they may propose that some services be purchased externally at less expense, or eliminated entirely.

Example: A cost study at a large research university revealed that the publications department's graphics, editing, photographic, and printing services and the medical college's information services were both in university-wide demand. But the operations often overlapped and competed with each other. The team recommended that the services be combined to eliminate duplication, reduce overhead, and focus the services better.

In another study, an urban university's evening college and its college of continuing education had many common characteristics. These included: use of faculty, open enrollment, teaching locations, evening and weekend hours, revenues that consistently exceeded

expenses, and counseling services tailored to the needs of their non-traditional students. The major difference between them was that only the evening college offered credits and a degree program.

Despite that difference, the study team recommended that the colleges be consolidated. The cost-saving and convenience-enhancing advantages were: a central location, a more flexible faculty, better course and service coordination, and a streamlined administrative staff.

Alternative Funding

Recommendations could address procedures for seeking alternative sources of revenue to be used to finance projects that otherwise would have to be abandoned or curtailed.

Example: To enhance a southern university's quest for alternate funding, the study proposed a new office devoted solely to seeking research grants and contracts. Though a university function, the office was externally financed through contract overhead and private contributions. Fundraising for the new office exceeded projections. And the new office was able to help the development office raise funds.

Work Procedures

Recommendations concern simplifying work procedures and processes. The challenge is to ensure that only necessary tasks are performed, using minimal staff time and effort.

Example: A university's large personnel department provided a full range of services to employees throughout the institution, with some assistance from line managers. The cost-study team concluded that employees could be served more efficiently and

quickly, and at considerably less expense, if line managers were trained to serve as their first personnel-service contact. Once implemented, the personnel department's lighter workload allowed for a substantial staff reduction, but there was not a corresponding increase in line staff.

Operational Redundancy

Recommendations concern the elimination of duplication, overlap and operational redundancy without loss of service quality.

Example: A cost-management team concluded that it was too expensive for a Western university to maintain a central public affairs department while allowing each of its schools to perform similar functions under such titles as marketing, promotion, and publications.

It recommended that all public affairs services be centralized, and that duplicative functions at the college level not be supported with general funds. Substantial overall savings were realized. Equally important, the university once again spoke publicly with one voice.

Management Organization

Recommendations to simplify management structure could improve productivity. Eliminating excessive middle-management layers not only reduces the ratio of supervisors to workers, it also results in savings that exceed payroll reductions by the amount saved in efficiency of operation under a simplified management structure.

Example: A Midwestern university's library system had become unwieldy with several layers of supervisors in various units. There was dissension and conflict, and people were performing jobs for which they were overqualified.

A recommended reorganization simplified the supervisory structure by giving overall responsibility to one professionally qualified person, removing one or two supervisory positions in selected units and redefining some jobs to include more productive work and less supervisory activity. This resulted in payroll reductions, increased harmony and efficiency among the staff, and greater user satisfaction.

Operating costs were reduced by more than 20 percent by installing sophisticated information retrieval and cataloging systems, consolidating service desks and employing clerks in jobs that did not require professional librarians. Central scheduling of workers for all library units made more effective use of personnel, and improved service.

Productivity

Productivity recommendations are designed to produce more with fewer employees by providing better scheduling and supervision, adopting automated procedures where possible, and reallocating work assignments in more practical, productive ways.

Example: Unacceptable performance by the housekeeping staff at a midwestern university was the reason for an organizational review. Managed by an outside contractor, workers accomplished less than 60 percent of a reasonable standard. Two work surveys revealed that less than 30 percent of staff was engaged in work activities at a given time, and that supervisors were almost completely absent.

A recommendation to increase the number of first-line supervisors was estimated to yield an annual savings of over $700,000 through improved productivity and the elimination of 40 housekeeping positions.

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This booklet is based on a study prepared for the Department of Education, "A Guide to Cost Management for Higher Education." Copies of this report can also be obtained from Cresap.